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Farmers Home Administration

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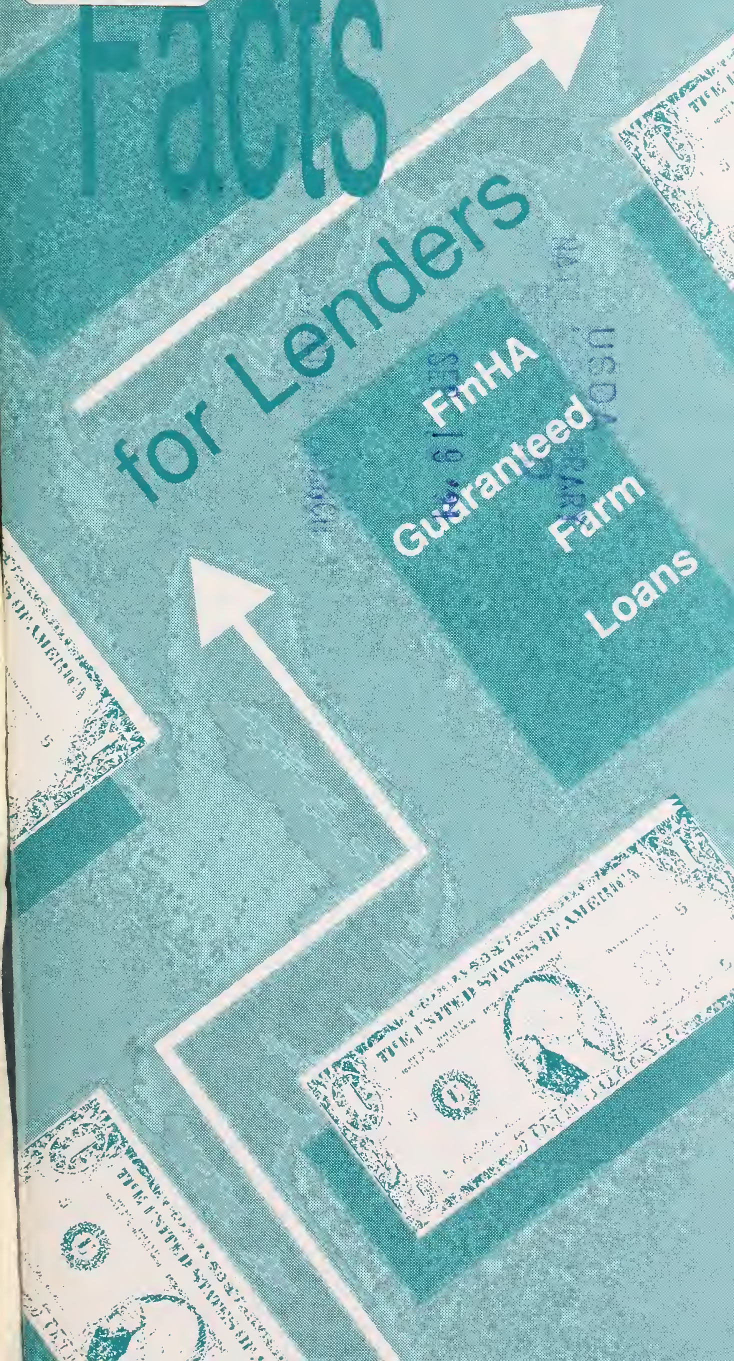
Facts for Lenders



FmHA Guaranteed Farm Loans

Facts for Lenders

FmHA Guaranteed Farm Program Loans

The Farmers Home Administration (FmHA) guarantees loans made by eligible agricultural lenders to family farmers and ranchers. The guaranteed program is administered under the Consolidated Farm and Rural Development Act, as amended.

The primary purpose of the program is to enable private lenders to provide credit to farmers who cannot obtain it on a conventional basis due to risk factors.

Local lenders serving rural areas can often make loans greater than their lending limits by use of the FmHA guarantee. Also, lenders have several options in electing to sell all or part of the guaranteed portion of loans.

Eligibility and Purpose

Who can make loans?

An eligible lender, as defined to participate in the FmHA guaranteed loan program, is any Federally- or State-chartered bank, Farm Credit Bank, other Farm Credit System institution with direct lending authority, Bank for Cooperatives, savings and loan association, building and loan association, mortgage company that is part of a bank holding company, an insurance company that is regulated by the National Association of Insurance Commissioners, or an agricultural credit corporation that is a subsidiary of any Federally- or State-chartered bank.

The above entities must be subject to credit examination and supervision by either a Federal or State agency. Credit unions that are subject to credit examination and supervision by either the National Credit Union Administration or a State agency are also eligible lenders for farmer program guaranteed loans. The lender must be in good standing with the licensing authority.

Lenders who are not eligible are not barred from participating in loans made by eligible lenders. Participation is discussed in the last section of this pamphlet.

All applications for FmHA guaranteed loans are treated with equal consideration, without regard to sex, age, race, color, religion, handicap, national origin, or marital status.

Who can borrow?

Borrowers may be individuals (including legal permanent resident aliens), partnerships, joint operators, corporations, and cooperatives that do, or will, conduct family-size farming or ranching operations. A "family farm" is considered to be one that a family can operate and manage itself. The partnership, joint operation, corporation, or cooperative must be owned by U.S. citizens or legal permanent resident aliens.

How may loan funds be used?

Farm Ownership (FO) loans may be used, for example, to buy, improve, or enlarge farms. Uses may include construction, improvement, or repair of farm homes and service buildings; improvement of onfarm water supplies; installation of pollution control or energy conservation measures; refinancing debts; clearing or improving forests; and establishing nonagricultural enterprises that help farmers supplement their farm income.

Operating Loans (OL) may be used, for example, to pay for items needed for farm operations, including livestock, farm and home equipment, feed, seed, fertilizer, fuel, chemicals, and hail and other crop insurance; family living expenses; minor building improvements; purchase of stock in certain cooperative associations; creditor payments; purchase of milk base; and refinancing debts.

Soil and Water (SW) loans may be used, for example, to develop, conserve, or make proper use of land and water resources, including development of wells and other sources of water, irrigation systems, drainage improvements, and improvements associated with forestry, fish farming, land protection, or pollution control.

What are the loan limits?

Limits for real estate loans (FO and SW) are the lesser of $300,000 or the market value of the farm or other security. The limits for operating (chattel) loans are $400,000.

What types of guarantees are available?

There are two types of guarantee commitments, the Loan Note Guarantee and the Contract of Guarantee. The Loan Note Guarantee is the signed commitment issued by FmHA setting forth the terms and conditions of the guarantee of a fixed loan amount.The Loan Note Guarantee may be used as the instrument of guarantee in all three types of loans in the guaranteed loan program and is readily marketable by the lender in the secondary market. Holders (investors) of Loan Note Guarantees are protected by the full faith and credit of the U.S. Government. The Contract of Guarantee (line of credit) is used only for operating loan purposes to provide farmers a revolving 3-year credit line for annual operating expenses but may not be sold in the secondary market. Other lenders or investors, however, may become involved through participation.

Can restructured loans be guaranteed?

The Comptroller of the Currency has circulated a regulation to national banks known as FASB 15, "Accounting for Restructured Loans." In part, this regulation allows a lender with a loan classified as undersecured to split the loan into a secured portion and an unsecured portion. The lender is encouraged to obtain a Government guarantee on the secured note and take a separate note on the unsecured portion at whatever rates and terms the borrower can afford to repay and the lender is willing to accept. In these cases, the lender is not required to maintain a reserve equal to the amount of the unsecured loans.

FmHA may, in such cases, guarantee the note representing the secured portion of the lender's restructured loan as long as the total operation will cover the cash flow on all debts, including the scheduled debt service on the unsecured note.

The note for the unsecured portion must have a fixed repayment schedule which shows the payments due during the years the guarantee will be outstanding; if no payments are due during certain years, the note's repayment schedule must reflect this. If FmHA becomes the guarantor in such cases, stipulations will be included in the Conditional Commitment to require the lender to certify that all income generated will be applied to the guaranteed loan installment prior to making any payment on the unsecured loan held by the lender, and that no preference or priority will be given to the unsecured loan over the guaranteed loan.

Loan Processing

How does a lender obtain a loan guarantee?

The lender contacts the FmHA County Supervisor in the county where the proposed farming operation or headquarters will be located for advice on procedures, forms, and requirements for making a preapplication or an application. FmHA has 1,930 County Offices serving every rural county in the United States. They are normally located in the county seat. Farmers Home Administration offices are listed in the telephone directory under U.S. Government-Department of Agriculture. Location of an office may be obtained by writing to Farmers Home Administration, USDA, Washington, DC 20250.

What is the guarantee fee?

The guarantee fee to FmHA is a one-time fee paid by the lender, who may pass it on to the borrower. The fee is 1 percent of the principal loan amount, multiplied by the percentage of the FmHA guarantee.

What are the interest rates and terms?

The interest rate on a guaranteed loan is negotiated between the lender and the borrower. It may not exceed the rate charged the lender's average farm customer.

Terms for repayment vary according to loan purpose and nature of security. Farm ownership and soil and water loans, which require real estate security, may be for a term of up to 40 years. Chattel- and crop-secured loans for operating purposes or lines of credit for eligible purposes may range from 1 to 7 years. In some cases these loans may be extended for 15 additional years.

What is interest rate buydown?

Interest rate buydown is a tool to enable lenders to continue to provide credit to family farmers who are temporarily unable to project a positive cash flow on all income and expenses, including debt service, without a reduction in interest rate.

Lenders who participate in this program enter into an agreement with FmHA to reduce the interest rate paid on a loan/line of credit. In return, FmHA will make annual interest buydown payments to the lender of 50 percent of any reduction in interest rate, not to exceed 2 percentage points.

The term for an interest rate buydown is 3 years, except for loans with a shorter term. Interest rate buydown can only be granted once over the life of a loan/line of credit.

The authority to enter into interest rate buydown agreements expires September 30, 1993.

Is this the lender's loan or an FmHA loan?

This is the lender's loan. The loan is made and serviced to conclusion by the lender. If everything works well and the borrower is able to repay the loan, no taxpayers' money will be used except for administrative expense. If a loan fails, FmHA will reimburse the lender/holder for the loss of the guaranteed portion of the loan as set forth in the guarantee.

Can an applicant obtain more than one guaranteed loan?

More than one loan guarantee can be executed with the same or different lenders for an applicant, provided each loan is secured with separate and identifiable security and is limited to a combined total of $400,000 for operating loans and $300,000 (or the market value of the farm or other security, whichever is less) for farm ownership or soil and water loans. If an individual who is also a member of an entity that already has a guaranteed farmer program loan applies for a loan in his or her own name, how much of a loan that individual could receive depends on whether or not that individual had signed the note for the entity's loan.

Applicants who are principal members of a partnership, corporation, joint operation, or cooperative that has received a guaranteed loan will be limited to the difference between the amount received by the entity and the maximum loan amount for the loan type requested.

Delinquency and Default

What is the lender's responsibility?

The lender is required to notify FmHA when a borrower is 30 days overdue on a payment and is unlikely to bring the account current within 60 days, or if a loan is otherwise a problem. A number of servicing options are available to the lender, but none can be imposed upon the lender by FmHA.

The lender is encouraged to work with the borrower to resolve any problems. If the loan cannot be restructured, the lender is responsible for liquidating the account in a manner agreed upon by FmHA.

Marketing Loans

What about marketing fixed-amount loans?

For the guaranteed portion, the lender has the following three options:

(1) Assignment Option: The lender may assign, using the FmHA assignment agreement (Form FmHA 449-36), all or part of the guaranteed portion of the loan to one or more holders. If the assignment option is used, the holder is protected by the full faith and credit of the U.S. Government on the guaranteed portion of the loan.

(2) Multinote System: When this option is selected by the lender, upon disposition, the holder will receive one or more of the borrower's executed notes and a Loan Note Guarantee will be attached to the borrower's notes. If the multinote system is used, the holder is protected by the full faith and credit of the U.S. Government on the guaranteed portion of the loan.

(3) Participation Option: The lender may sell participations in the guaranteed portion of the loan in accordance with its regular procedures, but must retain the unguaranteed portion of the loan. Investors through participation are not protected by the full faith and credit of the U.S. Government; they are dependent on the original lender for their protection.

What happens after a lender sells, participates, or assigns part or all of a loan?

When each guaranteed loan is made, the lender contracts with FmHA (by executing a lender's agreement) to collect principal and interest payments and service the loan. Servicing includes keeping in touch with the borrower in order to be aware of any potential problems, such as late payment, and meeting with the borrower if a problem does occur.

The local lender is responsible for distribution of principal and interest payments to the holder(s), assignee(s), or participant(s), as appropriate. The local lender may deduct a servicing fee agreed upon in advance between the lender and holder(s).

For the specific terms of the program, the regulations should be consulted.

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